Introduction to IFRS

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What are IFRS?

- International Financial Reporting Standards are the basis for GAAP accounting in many countries.
- IFRS are promulgated by the International Accounting Standards Board (IASB).
- Framework (concepts) and previously adopted IAS are also covered by IFRS.

IASB

- Formed April 1, 2001, assuming standards setting from IASC.
- 15 international members.
- Actions taken at monthly meetings.
- Staff is located in London and most meetings take place in London.
- www.IASB.org.

What is the Relevance of IASB to US Financial Reporting?

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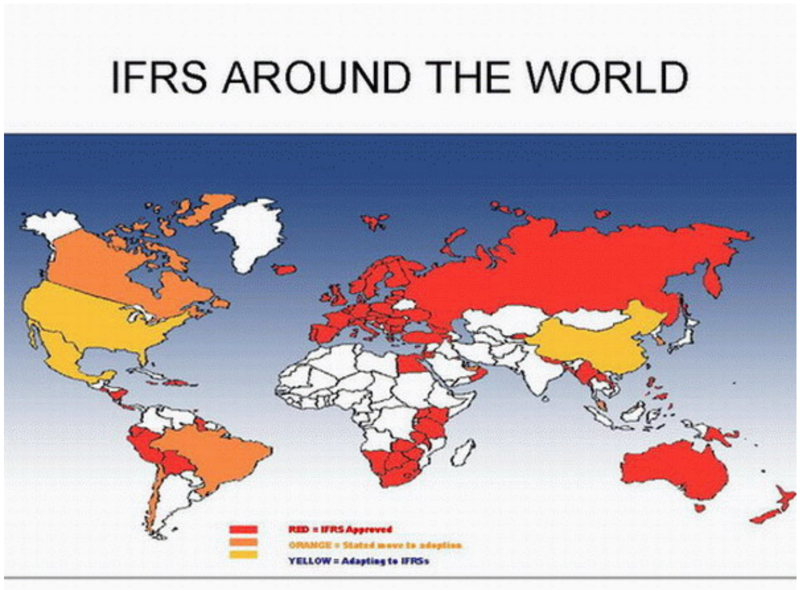

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Relevance of IASB to US

- SEC has already decided that foreign companies no longer need to reconcile IFRS based financial statements to US GAAP.
- SEC has published a roadmap that could lead to a decision to require US companies to report under IFRS. No more FASB.
- FASB and IASB have a Memorandum of Understanding to converge IFRS and US GAAP.
- FASB decided last fall to join in the current IASB project on Insurance Accounting.

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Relevance of IASB to US

- A stated objective of the International Association of Insurance Supervisors (IAIS), of which the NAIC is a member, is to use IFRS as a basis for future regulatory reporting.
- The work being done by the IASB on a new insurance standard may help define what is the Fair Value of insurance liabilities for *SFAS 159.*

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IFRS Insurance Project Objectives

- Reduce diversity of accounting practices that currently exist for insurance contracts.
- Align insurance accounting with other business sectors, where possible.
- Increase users' understanding of insurance financial statements.
- Help investors make decisions.

Fulfillment Value

- Still considering two options.
- Built on 3 pillars:
  - Current estimate of future cash flows,
  - Time value of money,
  - Risk margins.

Three Building Blocks

1. Current estimate of future cash flows:
   - Explicit.
   - Market consistent.
   - Incorporate, in an unbiased way, the amount, timing, and uncertainty of cash flows.
   - Current.
   - Probability weighted.

Three Building Blocks

2. Time Value of Money
- Discounting no big deal for life insurance, but a change for non-life.
- Independent of assets held, unless obligation is a direct function of a set of assets.
- Potentially discount would be based on risk-free rates.

Three Building Blocks

3. Risk Margins
- Margins another party would require to bear insurance risk and provide service.
- Explicit.
- Unbiased.
- Not for conservatism.
- The method will not be specified; rather acceptable criteria will be given.

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Risk Margins

- Must be estimated, since, typically they cannot be observed.
- Assess how market participants would measure.
- Adjusted or a separate margin so that there is no gain at issue.
- FASB and IASB are not in agreement as to how to calculate the risk margin or the purpose of the risk margin.

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Risk Margins

- Suggests Suitable Methods (Appendix F):
  - Confidence levels,
  - Conditional Tail Expectation (CTE),
  - Explicit margin within a specified range,
  - Cost of capital,
  - and others.

Likely Timeline

- IASB
  - Spring 2007 – Phase II Discussion Paper
  - December 2009 – Insurance Standard Exposure Draft
  - June 2011 – IASB Insurance Standard
  - 2013 – Insurance Standard Effective

- FASB – Same Timeline